

**PAWNEE COUNTY, KANSAS
PUBLIC BUILDING COMMISSION**

**FINANCIAL STATEMENT
For the Year Ended December 31, 2011**

**VONFELDT, BAUER & VONFELDT, CHTD.
Certified Public Accountants
Larned, Kansas 67550**

PAWNEE COUNTY, KANSAS PUBLIC BUILDING COMMISSION
PAWNEE COUNTY, KANSAS

Financial Statement
Regulatory Basis
For the Year Ended December 31, 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pawnee County, Kansas Public Building Commission
Larned, KS 67550

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Pawnee County, Kansas Public Building Commission, Larned, Kansas, a municipality, as of and for the year ended December 31, 2011 and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the Kansas Municipal Audit and Accounting Guide. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Pawnee County, Kansas Public Building Commission, Larned, Kansas, to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Pawnee County, Kansas Public Building Commission, Larned, Kansas as of December 31, 2011, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Pawnee County, Kansas Public Building Commission, Larned, Kansas as of December 31, 2011, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The individual fund schedules of regulatory basis receipts and expenditures (Schedule 1 as listed in the table of contents) is presented for analysis and are not a required part of the basic financial statement, however, is required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

VONFELDT, BAUER & VONFELDT, CHTD.

Certified Public Accountants

September 3, 2013

PAWNEE COUNTY, KANSAS PUBLIC BUILDING COMMISSION
PAWNEE COUNTY, KANSAS
Summary Statement of Receipts, Expenditures and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2011

<u>Funds</u>	<u>Beginning Unencumbered Cash Balance</u>	<u>Prior Year Cancelled Encumbrances</u>
Governmental Type Funds:		
Capital Project Funds:		
Hospital Project Fund	\$ 0.00	\$ 0.00
Cost of Issuance Fund	<u>0.00</u>	<u>0.00</u>
Total Reporting Entity	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>
Composition of Cash:		

The notes to the financial statement are an integral part of this statement.

<u>Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Add Encumbrances and Accounts Payable</u>	<u>Ending Cash Balance</u>
\$ 9,473,423.20	\$ 18,012,438.59	\$ (8,539,015.39)	\$ 15,740,318.65	\$ 7,201,303.26
<u>54,900.00</u>	<u>44,692.68</u>	<u>10,207.32</u>	<u>2,500.00</u>	<u>12,707.32</u>
<u>\$ 9,528,323.20</u>	<u>\$ 18,057,131.27</u>	<u>\$ (8,528,808.07)</u>	<u>\$ 15,742,818.65</u>	<u>\$ 7,214,010.58</u>
		U.S. Treasury Notes		<u>\$ 7,214,010.58</u>
		Total Reporting Entity		<u>\$ 7,214,010.58</u>

PAWNEE COUNTY, KANSAS PUBLIC BUILDING COMMISSION
PAWNEE COUNTY, KANSAS
NOTES TO THE FINANCIAL STATEMENT
December 31, 2011

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Pawnee County, KS Public Building Commission, Larned, Kansas (Commission) is a municipal corporation governed by an appointed three-member board. This financial statement presents Pawnee County, KS Public Building Commission (the municipality). Pawnee County, KS Public Building Commission has no related municipal entities.

B. REGULATORY BASIS FUND TYPES

Capital project fund - used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

C. BASIS OF ACCOUNTING

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The Commission has passed a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting.

D. CASH AND INVESTMENTS

Cash balances from all funds are combined and invested to the extent available. Cash and investments consist of U.S. treasury notes. Earnings from these investments are allocated to designated funds. Cash and investments are stated at cost.

F. REIMBURSED EXPENSES

The Commission records reimbursable expenditures (or expenses) in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparisons, the expenditures (or expenses) are properly offset by the reimbursements.

G. USE OF ESTIMATES

The preparation of the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Note 2 - COMPLIANCE WITH KANSAS STATUTES

Management is aware of no statutory violations for the period covered by the audit.

The Hospital Project Fund showed a negative ending unencumbered cash balance of \$8,539,015.39 for the year ending December 31, 2011. K.S.A. 10-1116 provides that under certain situations, funds can end the year with a negative unencumbered cash balance and therefore, be exempt from the cash basis law of the State of Kansas. This fund met the criteria under the statutes, and therefore, is not deemed to be in violation of the Kansas cash basis law.

Note 3 - INVESTMENTS

As of December 31, 2011, the Commission had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)		Rating U.S.
		Less than 1	1-2	
U.S. Treasury Notes	<u>\$ 7,214,010.58</u>	<u>\$ 7,214,010.58</u>	<u>-</u>	<u>N/A</u>
Total Fair Value	<u>\$ 7,214,010.58</u>	<u>\$ 7,214,010.58</u>	<u>-</u>	

K.S.A. 12-1675 limits the Commission's investments of idle funds to time deposits, open accounts, and certificates of deposit with the allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Commission has no investment policy that would further limit its investment choices. The rating of the Commission's investments is noted above.

Concentration of credit risk . State statutes place no limit on the amount the Commission may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. The Commission's allocation of investments as of December 31, 2011 is as follows:

Investments	Percentage of Investments
U.S. Treasury Notes	100%

Custodial credit risk - investments . For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

Note 4 - CAPITAL PROJECTS

Capital project authorizations with approved change orders compared with cash disbursements and accounts payable from inception are as follows:

	Project Authorization	Cash Disbursements and Accounts Payable to Date
Community Hospital	\$ 20,000,000.00	\$ 18,012,438.59

Note 5 - LONG TERM DEBT

Changes in long-term liabilities for the Commission for the year ended December 31, 2011 were as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>
Revenue bonds: Series 2011	3.00 - 4.65%	12/15/2011	\$ 9,620,000.00	2/15/2036

Total contractual indebtedness

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	<u>12/31/2012</u>	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2015</u>
Principal:				
Revenue bonds	<u>\$ 0.00</u>	<u>\$ 215,000.00</u>	<u>\$ 290,000.00</u>	<u>\$ 290,000.00</u>
Total principal	<u>0.00</u>	<u>215,000.00</u>	<u>290,000.00</u>	<u>290,000.00</u>
Interest:				
Revenue bonds	<u>0.00</u>	<u>612,550.00</u>	<u>358,665.00</u>	<u>349,965.00</u>
Total interest	<u>0.00</u>	<u>612,550.00</u>	<u>358,665.00</u>	<u>349,965.00</u>
Total principal and interest	<u>\$ 0.00</u>	<u>\$ 827,550.00</u>	<u>\$ 648,665.00</u>	<u>\$ 639,965.00</u>

<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions / Payments</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
\$ 0.00	\$ 9,620,000.00	\$ 0.00	\$ 9,620,000.00	\$ 0.00
<u>\$ 0.00</u>	<u>\$ 9,620,000.00</u>	<u>\$ 0.00</u>	<u>\$ 9,620,000.00</u>	<u>\$ 0.00</u>

<u>12/31/2016</u>	<u>12/31/2017 - 12/31/2021</u>	<u>12/31/2022 - 12/31/2026</u>	<u>12/31/2027 - 12/31/2031</u>	<u>12/31/2022 - 12/31/2026</u>	<u>Total</u>
\$ 295,000.00	\$ 1,600,000.00	\$ 1,860,000.00	\$ 2,255,000.00	\$ 2,815,000.00	\$ 9,620,000.00
<u>295,000.00</u>	<u>1,600,000.00</u>	<u>1,860,000.00</u>	<u>2,255,000.00</u>	<u>2,815,000.00</u>	<u>9,620,000.00</u>
<u>341,190.00</u>	<u>1,583,838.75</u>	<u>1,306,113.75</u>	<u>903,393.75</u>	<u>339,101.25</u>	<u>5,794,817.50</u>
<u>341,190.00</u>	<u>1,583,838.75</u>	<u>1,306,113.75</u>	<u>903,393.75</u>	<u>339,101.25</u>	<u>5,794,817.50</u>
<u>\$ 636,190.00</u>	<u>\$ 3,183,838.75</u>	<u>\$ 3,166,113.75</u>	<u>\$ 3,158,393.75</u>	<u>\$ 3,154,101.25</u>	<u>\$ 15,414,817.50</u>

Note 6 - LEASE

On December 15, 2011 an agreement was entered into with Pawnee County, Kansas (County) to lease the hospital to the County. The lease will terminate upon the occurrence of the following (a) the County shall have paid to the Commission all rental payments which the County is obligated under this lease; (b) the County has made arrangements which, in the opinion of the Commission, are adequate to comply with the Commission's obligations to pay any arbitrage rebate to the United States; and (c) all of the principal of and interest on all bonds shall have been paid in full or provision made for their payment in accordance with the provisions of the bond indenture. The Commission reserves and the County covenants agrees to pay basic rent to the Commission in immediately available funds during the basic term, for deposit in the debt service fund, on each basic rent payment date. In addition to basic rent, the County shall pay any additional rent required to be paid pursuant to this lease, or, if such payment cannot be made from legally available funds, as soon thereafter as funds can be made legally available after receipt of written notice thereof given to the County by the Commission or the Trustee. The lease further states that the County will sublease the hospital to Pawnee Valley Community Hospital (Hospital) to operate. The Hospital shall pay to or for the benefit of the County as rentals for the leasehold granted hereunder the lesser of (i) all basic rent and all additional rent payable under the lease or (ii) the positive net cash flow of the Hospital derived from the operation of the hospital. For the year ended December 31, 2011 basic rent revenue was \$0.00.

Future minimum basic rent under this lease for the next five fiscal years is as follows:

<u>Year</u>	<u>Amount</u>
12/31/2012	\$ 0.00
12/31/2013	827,550.00
12/31/2014	648,665.00
12/31/2015	639,965.00
12/31/2016	636,190.00

Note 7 - SUBSEQUENT EVENTS

The Commission has evaluated events subsequent to year end through September 3, 2013, and believes the following is the only event that has occurred which effect the financial statement as presented.

On February 15, 2012 the Pawnee County, Kansas Public Building Commission issued \$10,000,000 of Hospital Revenue Bonds (Pawnee County Community Hospital Project) Series 2012 for the purpose of the construction of a new community hospital.

**REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION**

PAWNEE COUNTY, KANSAS PUBLIC BUILDING COMMISSION
PAWNEE COUNTY, KANSAS
HOSPITAL PROJECT FUND
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2011

	<u>2011</u>
Cash Receipts	
Bond Proceeds	<u>\$ 9,473,423.20</u>
Total Cash Receipts	<u>9,473,423.20</u>
Expenditures	
Project Expenses	<u>18,012,438.59</u>
Total Expenditures	<u>18,012,438.59</u>
Cash Receipts Over (Under) Expenditures	(8,539,015.39)
Unencumbered Cash, Beginning	<u>0.00</u>
Unencumbered Cash, Ending	<u><u>\$ (8,539,015.39)</u></u>

PAWNEE COUNTY, KANSAS PUBLIC BUILDING COMMISSION
PAWNEE COUNTY, KANSAS
COST OF ISSUANCE FUND
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2011

	<u>2011</u>
Cash Receipts	
Bond Proceeds	<u>\$ 54,900.00</u>
Total Cash Receipts	<u>54,900.00</u>
Expenditures	
Cost of Issuance Expenses	<u>44,692.68</u>
Total Expenditures	<u>44,692.68</u>
Cash Receipts Over (Under) Expenditures	10,207.32
Unencumbered Cash, Beginning	<u>0.00</u>
Unencumbered Cash, Ending	<u><u>\$ 10,207.32</u></u>